

AGENDA REPORT

Ordinance: Adoption of an Ordinance Approving (i) a Fourth Supplement and Amendment to Lease and Option to Lease to a Lease dated September 1, 2011 Originally Between the Port of Oakland and Business Jet Center-Oakland, L.P., now with Piedmont Hawthorne Aviation, LLC doing business as Signature Flight Support, to Amend the Premises, Adjust Facilities Rent, and Change the Rent Adjustment Dates; and, (ii) a Third Amendment to Lease to a Lease dated November 1, 2011 with Piedmont Hawthorne Aviation, LLC doing business as Signature Flight Support to Adjust the Facilities Rent and Rent Adjustment Dates, For Premises Located at the North Field of Oakland International Airport. **(Aviation)**

MEETING DATE: 3/28/2019

AMOUNT: \$4.6 Million in Annual Rental Revenue

PARTIES INVOLVED: Piedmont Hawthorne Aviation, LLC doing business as Signature Flight Support, Orlando, Florida
Jim Hopkins – Senior Vice President, Airport Relations

SUBMITTED BY: Bryant L. Francis C.M., Director of Aviation

APPROVED BY: J. Christopher Lytle, Executive Director

ACTION TYPE: Ordinance

EXECUTIVE SUMMARY

This action recommends the Board's approval to amend two leases with Piedmont Hawthorne Aviation, LLC, for the fixed based operations ("FBO") operated by Signature Flight Support ("Signature"): (i) a *Fourth Supplement and Amendment to Lease*, and (ii) a *Third Amendment to Lease*. Staff also recommends the Board authorize the Executive Director to execute these agreements and any other documents required to effect the transaction detailed below.

These two amendments will fix the monthly rent for the two leases at the current rates, waive the requirement to adjust rental rates as triggered by assignment, delay adjusting the rental rates until July 1, 2021, and make minor clean-up changes. In exchange, Signature will agree to (i) delete a portion of its leasehold adjacent to Hangar 2 to accommodate redevelopment of that vacant facility; (ii) provide a reasonable amount of office space to the Civil Air Patrol; and (iii) relinquish a portion of its aircraft apron adjacent to Building L118 so that vacant building is more attractive and usable for aviation-related tenants.

BACKGROUND

Signature Operations at OAK: Signature Flight Support (“Signature”) operates the world’s largest network of fixed base operations (“FBO”)¹, providing on-airport corporate and general aviation support including passenger handling, fueling, and hangar and office rental services at more than 200 locations in Europe, South America, Africa, Asia and the United States. Signature operates at all three Bay Area airports: Oakland International Airport (“OAK”), San Francisco International Airport, and Mineta San José International Airport.

Signature’s presence at OAK dates to July 2003 through its predecessor Business Jet Center-Oakland, L.P. (“BJCO”). Another predecessor – Landmark Aviation (“Landmark”)² – began its FBO occupancy at the North Field in November 2011. In June 2013, Landmark acquired and folded in BJCO’s facilities and operations. In 2014, Landmark launched a maintenance, repair and overhaul function at Hangar 6 and has since added several shorter-term tenancies to accommodate its growing customer base which includes Fortune 500 companies such as Bechtel, McKesson, PG&E, VISA and Williams Sonoma.

Finally, in March 2016, Signature entered the Oakland/East Bay market and acquired the combined Landmark/BJCO operations. As illustrated in *Photograph #1* of the North Field, Signature’s various tenancy interests at OAK’s North Field are highlighted below; BJCO’s lease



Photograph #1

¹ FBOs conduct a wide range of aeronautical support activities including, but not limited to fueling, maintenance and charter flights. In addition, FBOs located at OAK lease hangar, aircraft apron and support space from the Port, and then sublease some of that space to corporate clients.

² Tenant corporate name: Piedmont Hawthorne Aviation, LLC doing business as Landmark Aviation.

premises in red and Landmark's original leasehold in yellow. The premises for OAK's other FBO – KaiserAir, Inc. – is also shown (blue highlight).

Signature's two major leases (the BJCO Lease and the Landmark Lease) may be extended to the year 2051 upon meeting certain conditions, chief among them being the investment of at least \$20 million of capital in upgrading its pre- and circa WWII hangars and support facilities. Toward that requirement, over \$20 million is estimated to have been spent to date. Signature pays the Port \$4.6 million annually in rent³, plus another \$1.2 million in fuel flowage fees, collected landing fees and utility charges for over 1.65 million square feet of hangar, aircraft and vehicle parking, office and support facilities that it occupies under the two major Leases and other shorter-term occupancy agreements.

The BJCO Lease and the Landmark Lease are detailed in Exhibit "A".

ANALYSIS

Staff is recommending a modification to the rental revision process for both the BJCO Lease and the Landmark Lease which would result in no increase in monthly rental for either lease until July 1, 2021. In exchange for this relief from rental increases, Signature will commit to (i) deleting certain apron space from the Landmark Lease Premises, (ii) offer to provide office space to the Civil Air Patrol, and (iii) potentially relinquish a portion of the Landmark Lease Premises to a future tenant of Building L118. Details of each of these items follows:

Fair Market Rental Value (FMRV) Rental Rate Adjustment Issue:

Background: For both the BJCO Lease and the Landmark Lease, the rental rates are subject to adjustment every five (5) years based upon fair market rental value ("FMRV") and, in the case of the BJCO Lease, rental rates are also subject to adjustment upon assignment, which occurred with Signature's acquisition of Landmark in March 2016. To allow Signature to close escrow, and with the express understanding that the FMRV rental adjustment outcomes would be retroactively effective to the dates stipulated in the BJCO Lease and Landmark Lease, the Port and Signature agreed to extend the dates for compliance with the FMRV rental adjustment process.

The rental revision process allows initially for negotiation between the parties and, failing a mutual agreement on what the FMRV rental rates should be, each party may commission a professional appraiser and tender appraisals to the other.⁴ Signature advised Staff that it retained a partnership of Aviation Management Consulting Group ("AMCG") and Decker Associates to appraise its two leaseholds. Concurrently, the Port retained a locally based appraiser – Alfred A. Watts and Associates – to determine FMRV rental rates. As is often the case in the first round of FMRV rental revisions, each appraisal determined widely different interpretations of what the revised rental rates should be. While rates for the various Space Types diverged, the total differences are as follows:

³ The referenced \$4.6 million in rent is for these two leases (BJCO Lease and Landmark Lease); combined with its short-term agreements with the Port, Signature will pay a total of \$5.2 million in annual rent.

⁴ The BJCO Lease sets many time frames for conducting the rental revision process; as noted above, because of the urgency of closing the Signature acquisition of Landmark, the parties agreed to waive these deadlines but maintain the contractual rental revision date (this Staff agreement needs approval by the Board).

- Current Monthly Rent = \$385,965
- AMCG Opinion of FMRV = \$258,873 33% **LESS** than Current Monthly Rent
- Watts Opinion of FMRV = \$565,731 47% **MORE** than Current Monthly Rent

As required by the BJCO Lease, representatives from the two appraisers, Signature and the Port met on October 9, 2017 to discuss the findings and “endeavor to reach agreement on the FMRV”, which remained elusive given the wide disparity between the opinions of value.

The final contractual step in the rental rate adjustment process requires selection of a third appraiser who is to develop an independent set of rental rates. As defined in the BJCO Lease: “From among the three opinions of FMRV submitted, the median opinion for each type of property identified, i.e., apron, hangar space, office space, etc., shall be the adjusted FMRV; provided that in no event shall the adjusted Facilities Rent be less than the Facilities Rent on the date immediately preceding such Rent Adjustment Date.” The parties did not trigger this final step.

Signature claims – and Staff concurs – that:

- a. It or its predecessors (BJCO or Landmark) and subtenants have invested approximately \$20 Million in capital improvement to its leaseholds;
- b. The Current Monthly Rent is in excess of FMRV as evidenced by the AMCG Appraisal; and,
- c. If forced to pay any more than the Current Monthly Rent, it will have no remaining funds to continue investing in its OAK operations.

Recommendation for FMRV Rental Adjustment: For Signature to remain a competitive FBO and to continue to invest in its North Field facilities and operations, Staff recommends that the Current Monthly Rent now in effect for the BJCO Lease and the Landmark Lease remain in effect, provided that:

- a. The waivers of the prior (i) sixty (60)-month FMRV adjustment; (ii) the assignment-based FMRV adjustment; and, (iii) the annual CPI adjustments shall be temporary;
- b. Effective July 1, 2021 (vs. contractual September 1, 2021)⁵ rental rates for the BJCO Lease will again be subject to adjustment based on the FMRV rental revision process and annual CPI adjustment thereafter;
- c. Effective July 1, 2021 (vs. contractual November 1, 2021)⁵ rental rates for the Landmark Lease will again be subject to adjustment based on the FMRV rental revision process and annual CPI adjustment thereafter; and,
- d. These proposed terms and conditions will be incorporated into a *Fourth Supplement and Amendment to Lease and Option to Lease* to the BJCO Lease and a *Third Amendment to Lease* to the Landmark Lease.

⁵ Aviation Properties wishes to insert consistency into the Leases by having rental revisions dates concurrent and on a fiscal year basis.

Redevelopment of Hangars 2, 230C & 230D

For approximately five years, Staff has been working to maximize the utilization and revenue for the premises described as Hangars 2, 230C & 230D, and the adjacent aircraft apron and vehicle parking lot (“Hangars 2+ Premises”; green outline on following aerial Photograph #2). After a solicitation process, Staff selected KaiserAir to have further negotiations for the redevelopment of the Hangars 2+ Premises.

As shown below, Signature leases (blue outline) most of the property east of the Hangars 2+ Premises (green outline). The apron adjacent to Hangar 2 (“Hangar 2 Apron”) is a separately-described parcel and is part of this Signature leasehold, and was specifically not included in the solicitation process. After its selection, KaiserAir requested that the Hangar 2 Apron be incorporated into the Hangars 2+ Premises.

Incorporating the Hangar 2 Apron into the Hangars 2+ Premises would greatly improve the interim use of Hangar 2 and would allow for a better configured and easily accessible re-placement Hangar 2 consistent with KaiserAir’s proposal.

As partial consideration for the Port’s amendment to the FMRV Rental Adjustment requirement, Signature has agreed to release and delete the Hangar 2 Apron from the definition of Premises in the BJCO Lease, if and when the Port determines it is needed for the redevelopment of the Hangars 2+ Premises. In addition, within six (6) months from the date the Hangar 2 Apron is deleted from the BJCO Lease Premises, the Port shall relocate a blast fence currently located on Signature’s Hangar 6 leasehold, to another location on the North Field.



Photograph #2



Photograph #3

Civil Air Patrol and Hangar 5

The Civil Air Patrol (“CAP”) is a United States Air Force Auxiliary Unit (Amelia Earhart Senior Squadron 188) and has been a North Field tenant (in various locations) since 1955. Sequential agreements have been entered into with the Port; as of December 1, 2012, CAP entered into its latest *Space/Use Permit*

(the “CAP SUP”), which provides for a five-year occupancy⁶ of 20,014± square feet of office/storage space, unpaved and partially paved land, apron and vehicle parking in and adjacent to the 90+-year old Port Building L130 (9465 Earhart Road shown on Photograph #3) on the North Field. Because of the public benefits provided by CAP, the Port does not charge monetary consideration for the CAP SUP Premises. The Board approved the terms and conditions of the CAP SUP pursuant to Ordinance No. 4451 adopted December 14, 2017.

Port Building L130 is functionally obsolete. Unfortunately, in Spring 2018, electricity service in and around Building L130 suffered a catastrophic failure requiring the installation of temporary generators to serve some buildings/tenants; however, it was determined that Building L130’s electrical system could not accommodate connection to a generator. Subsequently, the Port has restored electrical service to Building L130 for the time being, but Staff will serve notice on CAP that it must vacate Building L130 and has been assisting in locating a suitable on-Airport location.

As partial consideration for the Port’s amendment to the FMRV Rental Adjustment requirement, Signature has agreed to provide the CAP with a “reasonable” amount of office space on a month-to-month basis with the right to relocate the assigned space, at nominal (\$1 cash rental) through June 30, 2021.

Aviation Institute of Maintenance and Port Buildings L105, L118 & L151

Commencing in 2010, the Aviation Institute of Maintenance (“AIM”) occupied three Port buildings (L105, L118 and L151) on the North Field to operate its aircraft maintenance training school. In July 2018, AIM terminated its occupancy leaving these three buildings vacant. L105 is included within the properties for the Hotel Requests for Proposals and would be demolished as part of that redevelopment project. There are currently no interested parties for L151. However, Aviation Properties is negotiating with a prospective tenant for L118, which is a small hangar and office building adjacent to the airfield; L118 is also surrounded by the BJCO Lease (Signature; blue outline on Photograph #4) Premises.



Photograph #4

⁶ Despite the stated five-year term, either party may terminate the SUP upon 30-days written notice.

To accommodate the prospective tenant of L118, Staff has been in discussion with Signature for it to simultaneously relinquish an 8,600± square foot portion of its BJCO Lease Premises with a corresponding minor reduction in rent payable of approximately \$680 per month, which would be charged to the new lessee of Building No. L118 (i.e., no net change in revenue). Absent Signature's agreement to relinquish the portion of aircraft apron, the prospective tenant cannot efficiently use L118 and the Port would lose this opportunity to re-lease Building L118. As partial consideration for the Port's amendment to the FMRV Rental Adjustment requirement, Signature has agreed to relinquish a portion of the BJCO Lease Premises apron to the Port's tenant of Building No. L118.

Contract Clean-Up of the BJCO Lease Terms and Conditions

Since the inception of the BJCO Lease, minor adjustments to the terms and conditions have been covered by letter amendments or have recently occurred; these should be documented properly in the *Fourth Supplement and Amendment to Lease and Option to Lease* and will include:

- Formally expanding the Hangar 8B Premises to include 13,061± square feet of "Residual Apron" space effective as of September 15, 2016 for a term expiring March 31, 2020, unless sooner terminated as provided in the *Lease*.
- Increasing the amount of the Facilities Rent by \$3,548.50 per month as compensation for the above-referenced Residual Apron and increase the Security Deposit by \$10,646 (3 × the additional Facilities Rent). Note: the increased rental Security Deposit has been billed and paid since September 2016.
- Acknowledging that a Port-owned 201± square foot structure identified as Building No. L158 has been demolished with a resulting reduction in the rental rate from \$0.398 per square foot per month for "Shop" to \$0.080 per square foot per month for a total of \$16.08 per month for the 201± square foot.

These adjustments to premises and rental are minor compared to the overall areas encumbered by the BJCO Lease and the monthly rental charged.

BUDGET & STAFFING

The Board's approval of the *Fourth Supplement and Amendment to Lease and Option to Lease* to the BJCO Lease and a *Third Amendment to Lease* to the Landmark Lease will have no impact to the adopted FY2018-19 Operating Budget. There is no staffing impact.

MARITIME AVIATION PROJECT LABOR AGREEMENT (MAPLA)

The matters included in this Agenda Report do not fall within the scope of the Port of Oakland Maritime and Aviation Project Labor Agreement (MAPLA) and the provisions of the MAPLA do not apply.

STRATEGIC PLAN

The action described herein would help the Port achieve the following goals and objectives in the Port's Strategic Business Plan (2018-2022).

<https://www.portofoakland.com/wp-content/uploads/Port-of-Oakland-Strategic-Plan.pdf>

Goal: Improve Customer Service

Goal: Modernize and Maintain Infrastructure

LIVING WAGE

Living wage requirements, in accordance with the Port's Rules and Regulations for the Implementation and Enforcement of the Port of Oakland Living Wage Requirements (the "Living Wage Regulations"), apply to this agreement as the tenant employs 21 or more employees working on Port-related work and the tenancy agreement is greater than \$50,000.

SUSTAINABILITY

Signature has not proposed any development for either the BJCO Lease Premises or the Landmark Lease Premises. If Signature decides to develop either Premises in the future, Signature must comply with the 2000 Sustainability Policy and complete the Sustainability Opportunities Assessment Form.

ENVIRONMENTAL

Port staff is proposing to amend the existing two Leases between the Port and Piedmont Hawthorne Aviation, LLC doing business as Signature Flight Support. This action has been determined to be categorically exempt from requirements of the California Environmental Quality Act (CEQA) Guidelines pursuant to Section 15301, Existing Facilities, which exempts the operation, repair, maintenance, permitting, leasing, licensing, or minor alteration of existing public or private structures, facilities, mechanical equipment or topographical features, involving negligible or no expansion of use beyond that existing at the time of the lead agency's determination. The proposed amendments will not expand activities beyond the existing agreements or premises of the proposed areas.

Port staff have reviewed the Port's 2000 Sustainability Policy and did not complete the Sustainability Opportunities Assessment Form. There are no sustainability opportunities related to this proposed action because it does not involve a development project, purchasing of equipment, or operations that presents sustainability opportunities.

GENERAL PLAN

This action does not change the use of any existing facility, make alterations to an existing facility, or create a new facility; therefore, a General Plan conformity determination pursuant to Section 727 of the City of Oakland Charter is not required.

OWNER-CONTROLLED INSURANCE PROGRAM (OCIP)

The Owner Controlled Insurance Program (OCIP) does not apply to the matters addressed by this Agenda Report as they are not capital improvement construction projects.

OPTIONS

1. Adopt an Ordinance to amend the existing two Leases between the Port and Piedmont Hawthorne Aviation, LLC doing business as Signature Flight Support as follows:
 - A. *Fourth Supplement and Amendment to Lease and Option to Lease* to the Lease with Signature's predecessor Business Jet Center-Oakland, LLC dated September 1, 2011 as subsequently amended to:
 - i. Expand the Hangar 8B Premises to include 13,061± square feet of "Residual Apron" space effective as of September 15, 2016 for a term expiring March 31, 2020, unless sooner terminated as provided in the Lease;
 - ii. Increase the amount of the Facilities Rent by \$3,548.50 per month as compensation for the Residual Apron and increase the Security Deposit by \$10,646 (3 × the additional Facilities Rent);
 - iii. Acknowledge that a Port-owned 201± square foot structure identified as Building No. L158 has been demolished with a resulting reduction in the rental rate from \$0.398 per square foot per month for "Shop" to \$0.080 per square foot per month for a total of \$16.08 per month for the 201± square foot;
 - iv. Waive the requirement for the "Rent Adjustment Upon Assignment" as set forth in the Port's consent to assignment of the BJCO Lease to Landmark Aviation; and
 - v. Suspend the contractually-required adjustment dates of Facilities Rent until July 1, 2021 and establish the Facilities Rent for the following periods:
 - September 1, 2015 through February 28, 2019 at \$170,463.53 per month, and
 - March 1, 2019 through June 30, 2021 at \$170,699.70 per month.
 - vi. Revise the Rent Adjustment Date from September 1st to July 1st.
 - B. *Third Amendment to Lease* to the Lease with Piedmont Hawthorne Aviation, LLC (doing business at the time as Landmark Aviation) Jet Center-Oakland, LLC dated November 1, 2011 as subsequently amended to:
 - i. Waive the requirement for the "Rent Adjustment Upon Assignment" as set forth in the Port's consent to assignment of the Landmark Lease to Signature;
 - ii. Revise the Rent Adjustment Date from November 1st to July 1st; and
 - iii. Suspend the contractually-required adjustment dates of Facilities Rent until July 1, 2021 and establish the Facilities Rent at \$213,815.70 per month for the period March 1, 2019 through June 30, 2021.
 - C. Authorize the Executive Director to execute the amendments and any other documents to effect the proposed transactions.
 - D. This is Staff's recommendation.

2. Do not approve the proposed amendments to the two leases with Signature Flight Support which would:
 - A. Require retro-active rental increases thereby increasing Signature's cost of already-claimed high operating costs;
 - B. Potentially preclude the redevelopment of the Hangars 2+ Premises by not incorporating the "Hangar 2 Apron" in the project;
 - C. Leave the Civil Air Patrol without office space when it is required to vacate Port-owned Building L130; and,
 - D. Limit the leasing opportunities for Building L118 by not including a portion of Signature's aircraft apron adjacent to that building.
3. Do not approve the proposed amendments to the two leases with Signature Flight Support as proposed by Staff, but recommend different terms and conditions and instruct staff to negotiate with Signature.

RECOMMENDATION

It is recommended the Board adopt an ordinance to amend the existing two Leases between the Port and Piedmont Hawthorne Aviation, LLC doing business as Signature Flight Support as follows:

A Fourth Supplement and Amendment to Lease and Option to Lease to the Lease with Signature's predecessor Business Jet Center-Oakland, LLC dated September 1, 2011 as subsequently amended to:

- Expand the Hangar 8B Premises to include 13,061± square feet of "Residual Apron" space effective as of September 15, 2016 for a term expiring March 31, 2020, unless sooner terminated as provided in the *Lease*;
- Increase the amount of the Facilities Rent by \$3,548.50 per month as compensation for the Residual Apron and increase the Security Deposit by \$10,646 (3 x the additional Facilities Rent);
- Acknowledge that a Port-owned 201± square foot structure identified as Building No. L158 has been demolished with a resulting reduction in the rental rate from \$0.398 per square foot per month for "Shop" to \$0.080 per square foot per month for a total of \$16.08 per month for the 201± square foot;
- Waive the requirement for the "Rent Adjustment Upon Assignment" as set forth in the Port's consent to assignment of the BJCO Lease to Landmark Aviation; and
- Suspend the contractually-required adjustment dates of Facilities Rent until July 1, 2021 and establish the Facilities Rent for the following periods:
 - September 1, 2015 through February 28, 2019 at \$170,463.53 per month, and
 - March 1, 2019 through June 30, 2021 at \$170,699.70 per month.
- Revise the Rent Adjustment Date from September 1st to July 1st.

A Third Amendment to Lease to the Lease with Piedmont Hawthorne Aviation, LLC (doing business at the time as Landmark Aviation) Jet Center-Oakland, LLC dated November 1, 2011 as subsequently amended to:

- Waive the requirement for the “Rent Adjustment Upon Assignment” as set forth in the Port’s consent to assignment of the Landmark Lease to Signature;
- Revise the Rent Adjustment Date from November 1st to July 1st; and
- Suspend the contractually-required adjustment dates of Facilities Rent until July 1, 2021 and establish the Facilities Rent at \$213,815.70 per month for the period March 1, 2019 through June 30, 2021.

And authorize the Executive Director to execute the amendments and any other documents to effect the proposed transactions, all subject to approval by the Port Attorney as to form and legality.

Exhibit “A”

Terms and Conditions of Signature’s Predecessor Company Leases:

A. Business Jet Center Oakland, L.P. (“BJCO”):

1. Predecessor Lease (August 1, 2001):

- a. Premises: All or portions of:
 - i. 9625 Earhart Road (Port Building No. L118);
 - ii. Old Hotel appurtenant apron only (not building) (L130);
 - iii. Original Passenger Terminal (L142);
 - iv. Hangar 1, adjacent buildings and appurtenant apron (L150, L156 & L158);
 - v. Hangar 2 and appurtenant apron (L210);
 - vi. Hangar 3 East – appurtenant apron only (not hangar) (L310);
 - vii. Hangar 6 and appurtenant apron (L610);
 - viii. Hangar 7 – Bays A, C & D, appurtenant apron and vehicle parking (L710); and,
 - ix. Hangar 8 – Bays A & B and appurtenant apron only (not hangar) (L810).
- b. Term: August 1, 2001 through July 31, 2021 based on BJCO investing the required capital for a twenty-year term.
- c. Rent: Multiple rates for various property/improvement types plus fuel flowage fees plus percentage of gross revenues for various ancillary services (catering, vending machines, aircraft parking fees, aircraft maintenance, rental cars and limousines, charter aircraft services, etc.).
- d. Rental Adjustments: Annual CPI (6% maximum) plus fair market rental value (“FMRV”) every five years.

2. BJCO Lease (September 1, 2011):

- a. Premises: The same as above with the exception of:
 - i. Delete 9625 Earhart Road (L118); and,
 - ii. Add Hangar 9 and appurtenant apron (L820) effective June 1, 2012.
- b. Term: September 1, 2011 through July 31, 2021.
- c. Option Term: August 1, 2021 through July 31, 2051 provided BJCO invests a minimum of \$10 Million in capital improvements; \$2.5 Million by July 31, 2016 plus \$7.5 Million by July 31, 2021.
- d. Rent: Multiple rates for various property/improvement types plus fuel flowage fees plus percentage of gross revenues for various ancillary services (catering, vending machines, aircraft parking fees, aircraft maintenance, rental cars and limousines, charter aircraft services, etc.).

- e. Rental Adjustments: Annual CPI (6% maximum) plus FMRV every five years.
- f. Maintenance Cost Limitation: Except for the newly added Hangar 9, Port is responsible for maintaining the roof, exterior walls of the listed buildings and aircraft apron. If the costs to undertake maintenance and repair of each component exceeds \$500,000 in a 12-month period, the Port may opt to not make repair and delete the impacted Premises from the BJCO Lease. Specific to Hangar 9, the Port has no obligation to maintain, repair, rehabilitate, reconstruct, cleanup or remove any condition of that Premises.
- g. Option to Lease: BJCO has the option to add up to 250,000 square feet of Hangar 6 aircraft apron to the Premises.

B. Piedmont Hawthorne Aviation, LLC dba Landmark Aviation (November 1, 2011)

- 1. Premises: All or portions of:
 - a. Hangar 3 East (L310) and appurtenant apron; and,
 - b. Hangar 5, adjacent land, vehicle parking, buildings and appurtenant apron (L510, L518 & L550).
- 2. Term: November 1, 2011 through October 31, 2031 based on Landmark investing the required capital for a twenty-year term by committing to spend \$5 Million in capital improvements.
- 3. Rent: Multiple rates for various property/improvement types plus fuel flowage fees plus percentage of gross revenues for various ancillary services (catering, vending machines, aircraft parking fees, aircraft maintenance, rental cars and limousines, charter aircraft services, etc.).
 - a. Year 1: \$1,256,800 (\$2,256,800 Base Rent less Year 1's \$1 Million Rent Credit Offset);
 - b. Years 2 through 7: Year 1 Base Rent adjusted annually by CPI (see below); and,
 - c. Lease Years 2 through 7's \$500,000 Annual Rent Offset (see below).
- 4. Rental Adjustments: Annual CPI (6% maximum) plus FMRV every five years.
- 5. Years 2 through 7 Rent Credit Offset: To reduce the impact of start-up costs and to counterbalance the less-than-FMRV rates charged to competitor FBO KaiserAir, Inc., the Port and Landmark negotiated a conditional Rent Credit Offset of \$500,000 per year for Lease Years 2 through 7 against Base Rent to be assessed. If in any Lease Year, Landmark's Gross Profit on fuel sales and aircraft handling fees exceeds \$3 Million, in an amount up to \$500,000 for that Lease Year, Landmark will repay to the Port the Rent Credit Offset.
- 6. Option Term: November 1, 2031 through October 31, 2041 with two five-year options to further extend through October 31, 2051 provided Landmark invests a minimum of \$10 Million in capital improvements; \$2.5 Million by October 31, 2016 plus \$7.5 Million by October 31, 2021.

7. Maintenance Cost Limitation: The Port is responsible for maintaining the roof, exterior walls and aircraft apron of Hangars 5 and 3 East. If the costs to undertake maintenance and repair of each component exceeds \$500,000 in a 12-month period, the Port may opt to not make repair and delete the impacted Premises from the Landmark Lease.

C. Change in Percentage of Gross Revenue/Fuel Flowage Fees: By Letter Notice dated July 29, 2011, the Port amended the FBOs leases to delete the then-current fuel flowage rate structure of 19% of Gross Margin or \$0.15 per gallon, and substituted a flat fee of \$0.21 per gallon. The \$0.085 per gallon flat fee for qualified "Contract" fueling remained in place. In addition, the FBOs were no longer obligated to track and pay "Other Percentage Rent" for various ancillary services (catering, vending machines, aircraft parking fees, aircraft maintenance, rental cars and limousines, charter aircraft services, etc.). This change in fees applied to the BJCO Lease, Landmark Lease, and KaiserAir Lease.